

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

A Re-issued Financial Report

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Flint Public Library	County Genesee
Audit Date 6/30/05	Opinion Date 12/8/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

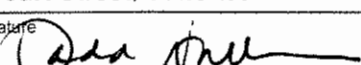
- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Plante & Moran, PLLC

Street Address 111 East Court Street, Suite 1A	City Flint	State MI	ZIP 48502
Accountant Signature 		Date 12/28/05	

Annual Financial Report
Flint Public Library
For the Year Ended June 30, 2005
with Independent Auditors' Report

**Flint Public Library, Michigan
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005**

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Financial Section

Independent Auditors' Report

To the Board of Directors of
Flint Public Library:

We have audited the accompanying financial statements of governmental activities and major fund of Flint Public Library (a District Library) as of and for the year ended June 30, 2005, which comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Flint Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Flint Public Library at June 30, 2005, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note IV to the financial statements, the Flint Public Library changed its method of recording certain property tax revenue payments.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

PLANTE & MORAN, PLLC

December 8, 2005

Management's Discussion and Analysis

Flint Public Library Management's Discussion and Analysis

This section of Flint Public Library's annual financial report presents our discussion and analysis of the Library's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the Library's financial statements, which follow this section.

Financial Highlights

- The Library's primary source of revenue is from property taxes. For 2005, total tax collections were \$4,692,525. This represents approximately 87.9% of total revenue.
- Salaries, employee benefits, and taxes are the largest overall expenditure of the Library. For 2005, the expenditure was \$3,597,329, representing approximately 67.9% of the Library's total expenditures.
- Library materials of \$445,056 are the second largest overall expenditure of the Library, representing approximately 8.4% of the Library's total expenditures.
- Total expenditures for the entire year were \$5,295,474.
- The Library's net assets decreased by \$121,303 during the year ended June 30, 2005. Depreciation expense was \$313,066.

Government-wide Statements

The government-wide statements report information about the Library as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Library's net assets and how they have changed. Net assets – the difference between the Library's assets and liabilities – is one way to measure the Library's financial health or position.

- Over time, increases or decreases in the Library's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Library you need to consider additional non-financial factors such as changes in the Library's property tax base.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Financial Analysis of the Library as a Whole

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities by approximately \$4.58 million at the close of the most recent fiscal year (see below table).

Summary Condensed Financial Information

	Governmental Activities	
	2005	2004
Current assets	\$ 1,659,050	\$ 1,488,016
Noncurrent assets:		
Capital assets	3,520,339	3,635,993
Total assets	5,179,389	5,124,009
Liabilities:		
Current liabilities	319,017	174,813
Non-current liabilities	276,668	244,189
Total liabilities	595,685	419,002
Net assets:		
Invested in capital assets – net of debt	3,472,873	3,635,993
Restricted - Expendable Endowment	232,462	432,244
Restricted - Non-Expendable Endowment	20,000	20,000
Restricted - Donor restricted contributions	13,231	-
Unrestricted	845,138	616,770
Total net assets	\$ 4,583,704	\$ 4,705,007
Revenue:		
Property taxes	\$ 4,692,525	\$ 4,701,101
Other	630,276	617,968
Donation of land and building	-	2,650,000
Total revenue	5,322,801	7,969,069
Expenses	5,444,104	5,761,037
Changes in net assets	(121,303)	2,208,032
Net assets – beginning of year	4,705,007	2,496,975
Net assets – end of year	\$ 4,583,704	\$ 4,705,007

It can be seen that total net assets for the Library decreased (\$121,303) during the year ended June 30, 2005.

Total revenues decreased \$2,646,268 as the building and land valued at \$2,650,000 was donated in 2004; while expenses decreased \$316,933, or 5.5 percent due in part to reductions in professional services and printing and publications.

Capital Assets

At the end of 2005, the Library has capital assets of \$3,520,339, net of related debt and accumulated depreciation. The largest portion represents donated building and land of the Main Branch of \$2,650,000 at fair market value at the date of donation. This net amount complies with methods established by the Governmental Accounting Standards Board (GASB) GASB Statement 34.

Long-term Debt

At year-end, the Library had \$285,368 owed to employees for compensated absences.

Budgets

There were no significant changes to the total overall budget between the original and final amended budget.

Requests for Information

This financial report is designed to provide our citizens and taxpayers with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance and Human Resource Administrator at Flint Public Library, 1026 E. Kearsley, Flint, Michigan 48502.

Basic Financial Statements

Flint Public Library
Governmental Fund Balance Sheet/Statement of Net Assets
June 30, 2005

	Primary Government		Component Unit
	General Fund - Modified Accrual Basis	Adjustments (Note III)	Friends of the FPL
Assets			
Current assets:			
Cash and cash equivalents	\$ 970,617	\$ -	\$ 970,617
Restricted cash and cash equivalents	252,462	-	252,462
Investments held by others	-	-	-
Receivables:			
Property taxes	170,866	-	170,866
Intergovernmental	211,631	-	211,631
Other	13,872	-	13,872
Prepaid expenses	39,602	-	39,602
Capital assets, net	-	3,520,339	3,520,339
Total assets	<u>\$ 1,659,050</u>	<u>3,520,339</u>	<u>5,179,389</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 187,015	\$ -	\$ 187,015
Long-term debt - Current portion	-	8,700	8,700
Deferred revenue	123,302	-	123,302
Long-term debt - Net of current portion	-	276,668	276,668
Total liabilities	<u>310,317</u>	<u>285,368</u>	<u>595,685</u>
Fund Balances			
Reserved for prepaid expenses	39,602	(39,602)	
Reserved - Expendable Endowment	232,462	(232,462)	
Reserved - Non-Expendable Endowment	20,000	(20,000)	
Reserved - Donor restricted contributions	13,231	(13,231)	
Unreserved - Designated	825,000	(825,000)	
Unreserved - Undesignated	218,438	(218,438)	
Total fund balance	<u>1,348,733</u>	<u>(1,348,733)</u>	
Total liabilities and fund balance	<u>\$ 1,659,050</u>		
Net Assets			
Investment in capital assets- net of debt		3,472,873	3,472,873
Restricted - Expendable Endowment		232,462	232,462
Restricted - Non-Expendable Endowment		20,000	20,000
Restricted - Donor restricted contributions		13,231	13,231
Unrestricted		845,138	845,138
Total net assets		<u>\$ 4,583,704</u>	<u>\$ 4,583,704</u>

See notes to financial statements.

Flint Public Library
Statement of Governmental Revenue, Expenditures
and Changes in Fund Balance - Statement of Activities
Year Ended June 30, 2005

	Primary Government			Component Unit
	General Fund - Modified Accrual Basis	Adjustments (Note III)	Statement of Net Assets - Full Accrual Basis	Friends of the FPL
Revenue				
Property taxes	\$ 4,692,525	\$ -	\$ 4,692,525	\$ -
Grants and memorials	201,436	-	201,436	5,796
Penal fines	169,219	-	169,219	-
State aid	68,710	-	68,710	-
Interest income	33,064	-	33,064	10,480
Donation income	55,051	-	55,051	19,121
Charges for services	88,815	-	88,815	-
Miscellaneous revenue	13,981	-	13,981	-
Total revenue	5,322,801	-	5,322,801	35,397
Expenditures				
Salaries and wages	2,685,736	32,976	2,718,712	-
Employee benefits and taxes	911,593	-	911,593	-
Materials	445,056	(142,996)	302,060	-
Supplies	236,401	-	236,401	-
Maintenance and utilities	355,008	-	355,008	-
Professional services	206,950	-	206,950	-
Rent	47,915	-	47,915	-
Communications	56,033	-	56,033	-
Dues and memberships	30,874	-	30,874	-
Printing and publishing	18,842	-	18,842	-
Miscellaneous	500	-	500	-
Insurance	108,289	-	108,289	-
Grant expenditures	108,193	-	108,193	5,798
Capital outlay	58,915	(54,416)	4,499	-
Depreciation	-	313,066	313,066	-
Transportation/Staff development	25,169	-	25,169	-
Grant distributions	-	-	-	4,896
Total expenses	5,295,474	148,630	5,444,104	10,694
Revenues Over (Under) Expenditures/ Change in Net Assets	27,327	(148,630)	(121,303)	24,703
Fund Balance/Net Assets - Beginning of year	1,321,406	-	4,705,007	156,304
Fund Balance/Net Assets - End of year	\$ 1,348,733	\$ -	\$ 4,583,704	\$ 181,007

See notes to financial statements.

Notes to Basic Financial Statements

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies

The accounting policies of the Flint Public Library (the “Library”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Flint Public Library.

A. Reporting entity

Pursuant to Proposal A, effective July 1, 1996, school districts in Michigan are not allowed to levy a millage for public libraries. The Library was, therefore, spun off from the Flint Public Schools (the “Schools”) to operate as an independent body with its own board of trustees and its own tax levy. The Library has received voter approval to levy 2.9 mills. The Library became a separate entity as of July 1, 2000. Transfer of certain assets and liabilities was completed on June 16, 2004 between the Library and Schools. The Library is governed by a Board (the “Library Board”), which consists of seven members. The mayor appoints four members and the Flint Board of Education appoints three members.

The Library’s borders encompass the City of Flint (“the City”). Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year.

The accompanying financial statements present the Library and its component unit, an entity for which the Library is considered to be financial accountable. The component unit discussed below is included in the Library’s reporting entity because of the significance of their operational or financial relationship with the Library. The component unit is discretely presented via a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the Library.

Discretely Presented Component Unit –Friends of the Flint Public Library (FFPL) (a not-for-profit organization) – A separate legal entity formed solely to support the Flint Public Library. An endowment fund has been established at the Community Foundation of Greater Flint for which distributions of investment income will be annually distributed to the Library. Requests for financial statements of the FFPL can be made to the Officers of the FFPL.

B. Measurement focus, basis of accounting, and financial statement presentation

The Library has one fund, the General Fund, which is the Library’s primary operating fund.

The Library is budgeted and accounted for using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses. The prepaid expenses reported on the balance sheet represent payments made in advance for 2006 expenditures.

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies – (continued)

B. Measurement focus, basis of accounting, and financial statement presentation – (continued)

In addition to presenting information for the General Fund, the statements combine all fund activity and present information for the Library as a whole, using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private-sector standards issued after November 30, 1989 for its full accrual presentation.

C. Financial Statement Amounts

1. Cash and investments

Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

2. Receivables

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts.

3. Property taxes

Property taxes are levied on December 1 based on the taxable valuation of the property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The taxable valuation of the Library totaled approximately \$1.54 billion, on which ad valorem taxes levied consisted of 2.9 mills for the Library's operating purposes. The ad valorem taxes levied raised approximately \$4.7 million for operations and is recognized in the General Fund financial statements as property tax revenue.

The Library is levying 2.0 mills that will be levied in perpetuity and 0.9 mills for which authorization will expire December 2011.

The Library levies its property taxes on December 1 and the City of Flint collects its property taxes and remits them to the Library through February. The County purchases the delinquent real property taxes of the Library, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the Library for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies - (continued)

C. Financial Statement Amounts - (continued)

4. Prepaid expenses

The prepaid expenses reported on the balance sheet represent payments made in advance for 2006 expenditures.

5. Capital assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Works of art	N/A
Computers and accessories	5
Vehicles	6
Equipment and furniture	7-20
Building and improvements	20

6. Compensated Absences

The Library reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick and vacation leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick and vacation leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Library's past experience of making termination payments.

The entire compensated absences liability is reported on the government-wide financial statements.

A liability for these amounts is reported in governmental funds only for eligible employee terminations as of year end.

7. Revenue recognition

Contributions received are recorded as revenue and earmarked as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets.

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies - (continued)

C. Financial Statement Amounts - (continued)

8. Grants and Memorials

Grant revenues are recorded as they are earned, according to the provisions of the grant. Normally, grant revenues are earned and received as the grant period progresses. The provisions of the grant determine the timing of revenue recognition. Grant expenses are recognized when incurred for a grant related obligation. Some immaterial variances may occur between grant revenue and expense due to timing differences. Any grant funds received prior to incurring grant qualifying expenditures are recorded as deferred revenue.

9. Deferred Revenue

Income is recognized as revenue as it is earned. Prepayments are recorded as deferred until the revenue is earned over the year.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. See Note II G for additional information about designated fund balance.

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

II. Detailed notes on all funds

A. Deposits and investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptances of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

II. Detailed notes on all funds - (continued)

A. Deposits and investments - (continued)

The Federal Deposit Insurance Corporation (FDIC) provides protection of the Library's deposits.

The Board authorized Citizens Bank and Bank One for the deposit of the Library's funds.

The investment policy adopted by the Board in accordance with Public Act 196 of 1997 had authorized investment in all of the above mentioned investment vehicles. The Library's deposit and investment policies are in accordance with statutory authority.

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$1,023,079 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates the financial institution it deposits funds with and assesses their level of risk; only those institutions with an acceptable estimated risk level are used as depositories.

Deposits and investments of component unit:

Deposits:

The FFPL had \$41,141 in deposits that were fully insured at June 30, 2005.

Custodial credit risk of investment:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the FFPL will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The FFPL does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the FFPL's name:

<u>Type of Investment</u>	<u>Carrying Amount</u>	<u>How Held</u>
Stock mutual funds (endowment at Greater Flint Community Foundation)	\$139,866	Counterparty's trust department

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

II. Detailed notes on all funds - (continued)

B. Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 530,000	\$ -	\$ -	\$ 530,000
Works of art	200,000	-	-	200,000
Total capital assets not depreciated	730,000	-	-	730,000
Capital assets, being depreciated:				
Building and improvements	2,120,000	47,466	-	2,167,466
Books	1,214,485	142,996	-	1,357,481
Computers, vehicles, and furniture	825,299	6,950	123,200	709,049
Less accumulated depreciation for:				
Capital assets	(1,253,791)	(313,066)	(123,200)	(1,443,657)
Total capital assets, being depreciated, net	2,905,993	(115,654)	-	2,790,339
Governmental activities capital assets	\$ 3,635,993	\$(115,654)	\$ -0-	\$ 3,520,339

As a part of the transaction to "spin off" from the School District of the City of Flint, the deed to the building and land of the Main Branch was given to the Library on the condition that the property be used for public library purposes and with free public library usage for residents of the City of Flint. Should the property cease to be used for public library purposes with free public library usage for residents of the City of Flint, the property ownership could revert back to the School District of the City of Flint. The deed to the property was transferred on June 15, 2004 at a fair value of \$2,650,000.

C. Long-term debt

Long-term liability activity for the year ended June 30, 2005 can be summarized as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Compensated Absences	\$ 252,392	\$ 32,976	\$ -0-	\$ 285,368

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

II. Detailed notes on all funds – (continued)

C. Long-term debt – (continued)

The compensated absences represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the Library's various contracts, employees earn vacation and sick time based on time of service with the library. The Library estimates that vacation pay of \$1,200 and sick pay of \$7,500 will be paid within the next year.

D. Budget Information

The Library employs the following procedures in establishing the budgetary data reflected in the financial statements:

- Prior to June 30, the Director submits to the Board a proposed operating budget for the fiscal year commencing on July 1.
- A public hearing is conducted in June to obtain taxpayer comments.
- Prior to June 30, the budget is legally enacted through passage of a resolution by the Board of Trustees on an activity basis.
- For purposes of meeting emergency needs of the Library, transfer of appropriations may be made by the authorization of the Director. Such transfers of appropriations must be approved by the Board at its next regularly scheduled meeting.
- The Director is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 have not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

A comparison of the actual results of operations to the General Fund budget as adopted by the Library Board is included in the required supplementary information.

E. Risk management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for these risks. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage.

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

II. Detailed notes on all funds – (continued)

F. Pension Plan

1) Defined Benefit Pension Plan – MPSERS

Library employees hired prior to July 1, 2000 are eligible to participate in the Michigan Public School Employees Retirement System (MPSERS). The Plan Description, Funding Policy and Description of Other Post Employment Benefits follows:

Plan Description

MPSERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public Schools Employee Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members, enrolled in MIP prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired on January 1, 1990 or later, contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000, 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 12.99 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. The contribution requirements of plan members and the Library are established by Michigan State statute and may be amended only by action of the State Legislature. The Library's contributions to MPSERS for the year ended June 30, 2005 and 2004 was \$211,114 and \$197,663, respectively, equaled the required contributions for the year.

The Library's annual contribution represents less than 1% of the total contributions received by the MPSERS. Historical trend information showing funding progress, employer contributions and actuarial assumptions for the entire MPSERS plan is presented in the MPSERS September 30, 2004 comprehensive annual financial report.

Post-employment benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for those that have health, dental, and vision coverages. Required contributions for postemployment health care benefits are included as part of the Library's total contribution to the MPSERS pension plan discussed above.

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

II. Detailed notes on all funds - (continued)

F. Pension Plan - (continued)

2) Defined Benefit Pension Plan – MERS

Library employees hired on or after July 1, 2000 are eligible to participate in the Municipal Employees Retirement System (MERS). The Plan description and funding policy are as follows:

Plan Description

The Library's defined benefit pension plan - MERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Library participates in Municipal Employees Retirement System (MERS), an agent of a multiple-employer public employee retirement system (PERS) administered by the MERS Retirement Board. Act No. 427 of the Public Act of 1984, as amended, established, and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System issues a publicly available financial report that included financial statements and requires supplementary information of MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan, 48917 or by calling (800) 767-6377.

A basic plan member may retire at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 2 percent of a member's five-year final average compensation. Final average compensation is the employee's average salary over the last 5 years of credited service. Benefits fully vest on reaching 10 years of service.

The Library's current year covered payroll its employees amounted to \$1,397,016. All required contributions to the plan have been made by the employer.

Funding Policy

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of the projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MERS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers. The MERS makes separate measurements of assets and pension benefit obligation for individual municipalities. The pension benefit obligation at December 31, 2004 (latest reporting date available) for the obligation is for vested and non-vested current employees. The Library's net assets available for benefits on that date (valued at cost) were \$236,257 leaving under-funding of \$25,808. The Library made contributions of \$75,727 for the fiscal year ended June 30, 2005. The investment return rate and pay increase assumption used in making the actuarial valuations were 8% and 4.5%, respectively. The Library funding policy is to contribute annually an amount sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Library may determine to be appropriate. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligations.

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

II. Detailed notes on all funds - (continued)

F. Pension Plan - (continued)

2) Defined Benefit Pension Plan - MERS - (continued)

Actuarial assumptions

The significant actuarial assumptions used to compute the actuarial accrued liabilities are as follows:

Actuarial valuation date	December 31, 2004
Actuarial cost method	Entry age-normal
Amortization period	Level percentage of payroll
Remaining amortization period (weighted)	30 years
Asset valuation method	(1)
Actuarial assumption:	
Investment rate of return	8.0%
Projected salary increase	(2)

(1) Five year smoothed market

(2) 4.5% wage inflation plus a percentage based on aged-related scale to reflect merit, longevity, and promotional salary increases. The range of percentages is from 12.9% for a 20 year old participant to 4.5% for a 60 year old participant.

Annual pension cost

The Library's Annual Required Contribution (ARC) and Annual Pension Costs (APC) for the year ended June 30, 2005 was \$75,727. All employer contributions made were equal to required contributions by MERS. There was no Net Pension Obligation (NPO) at June 30, 2005. The APC, percentage of APC contributed, and NPO for the year ended June 30, 2005, 2004, and 2003 are summarized as follows:

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	12/31/02	\$ 54,098	100%	\$ -
6/30/04	12/31/03	60,110	100	-
6/30/05	12/31/04	75,727	100	-

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

II. Detailed notes on all funds - (continued)

F. Pension Plan - (continued)

2) Defined Benefit Pension Plan - MERS - (continued)

Schedule of funding progress

Historical trend information showing MERS' progress in accumulating sufficient assets to pay benefits when due is presented in the December 31, 2004 comprehensive annual financial report. Three-year historical trend information is as follows:

Valuation Date	Net Assets Available for Benefits	Actuarial Accrued Liability	Percent Funded	Assets in Excess of Actuarial Accrued Liability	
				Amount	As a Percent of Covered Payroll
12/31/02	\$ 48,457	\$ 71,309	147%	\$ (22,852)	0%
12/31/03	123,836	144,447	117	(20,611)	0
12/31/04	262,065	236,257	90	25,808	2

G. Fund Balance Designated

Fund Balance designations represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. The designation of fund balance at June 30, 2005 is comprised of the budget stabilization in the amount of \$825,000. The Flint Public Library Board policy III.4.1 requires the establishment and maintenance of a three-month operating reserve. The current designation is approximately equivalent to a two-months operating reserve.

H. Restricted Net Assets

Restricted net assets at June 30, 2005 are comprised of the following:

<u>Primary Government</u>	<u>Expendable Endowment</u>	<u>Non-Expendable Endowment</u>	<u>Total</u>
Mid-Eastern Michigan Library Cooperative	\$ 27,150	\$ -	\$ 27,150
Library Building Fund	3,729	-	3,729
Goering Fund	35,470	-	35,470
Scott Memorial Fund	30,407	20,000	50,407
Library Special Fund (Curtis)	135,706	-	135,706
Total	<u>\$232,462</u>	<u>\$ 20,000</u>	<u>\$252,462</u>
Component Unit:			
Community Foundation of Greater Flint	<u>\$139,866</u>	<u>\$ -0-</u>	<u>\$139,866</u>

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

II. Detailed notes on all funds - (continued)

I. Leases

The Library has entered into three non-cancelable operating leases for branch facilities. Each lease is for a period of 36 months. Lease terms end April 30, 2008, June 30, 2008, and December 31, 2008, respectively, with payments ranging from \$1,200 - \$1,500 per month.

The future lease payments are as follows:

Year End <u>June 30,</u>	Total <u>Payments</u>
2006	\$ 48,000
2007	48,000
2008	45,600

J. Budget compliance

The Library incurred expenditures in excess of appropriations as follows:

	Expenditures in excess of <u>Budget</u>
Salaries and wages	\$156,118
Materials	49,056
Supplies	38,901
Rent	4,365
Communications	13,167
Miscellaneous	500
Grant expenditures	108,193
Transportation/staff development	10,169

III. Reconciliation of government-wide and fund financial statements

Total fund balance and the net change in fund balance of the Library's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified Accrual Basis	\$1,348,733
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	3,520,339
Compensated absences are included as a liability	<u>(285,368)</u>
Net Assets of General Fund – Full Accrual Basis	<u>\$4,583,704</u>

Flint Public Library
Notes to Basic Financial Statements
June 30, 2005

III. Reconciliation of government-wide and fund financial statements

Net Change in Fund Balances – Modified Accrual Basis	\$ 27,327
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities. These costs are allocated over their estimated useful lives' depreciation:

Capital outlay	197,412
Depreciation	(313,066)

Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(32,976)
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Changes in Net Assets of General Fund – Full Accrual Basis	<u>\$ (121,303)</u>
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IV. Prior period restatement

The Library in the past did not accrue in each current fiscal year the Renaissance Zone property tax revenue applicable to that fiscal year. The Library is changing the accounting method for this payment. In addition, the assets of the Library's component unit were included with the primary government's assets in prior years rather than being shown separately. Also, the Library book collection and building and land was not capitalized at the government-wide level. Net assets as of June 30, 2004, were restated to correct the change in accounting principle and errors as follows:

Net assets – June 30, 2004 – as originally stated	\$1,434,791
Change in property tax accrual	158,320
Reclassification of component unit assets	(128,486)
Capitalization of books – net	590,382
Capitalization of building and land (donated)	2,650,000
Net assets – June 30, 2004 – as restated	\$4,705,007

Required Supplementary Information

Flint Public Library
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2005

	Originally Adopted Budget	Final Amended Budget	Actual	Variance With Final Budget
Revenue				
Property taxes	\$ 4,500,000	\$ 4,500,000	\$ 4,692,525	\$ 192,525
Grants and memorials	-	-	201,436	201,436
Penal fines	150,000	150,000	169,219	19,219
State aid	65,000	65,000	68,710	3,710
Interest income	20,000	20,000	33,064	13,064
Donation income	-	-	55,051	55,051
Charges for services	52,000	52,000	88,815	36,815
Miscellaneous revenue	2,500	2,500	13,981	11,481
Total revenue	4,789,500	4,789,500	5,322,801	533,301
Expenditures				
Salaries and wages	2,684,618	2,529,618	2,685,736	156,118
Employee benefits and taxes	956,095	946,095	911,593	(34,502)
Materials	394,000	396,000	445,056	49,056
Supplies	162,500	197,500	236,401	38,901
Maintenance and utilities	332,000	367,000	355,008	(11,992)
Professional services	195,000	212,000	206,950	(5,050)
Rent	43,550	43,550	47,915	4,365
Communications	42,865	42,866	56,033	13,167
Dues and memberships	100,000	100,000	30,874	(69,126)
Printing and publishing	5,000	20,000	18,842	(1,158)
Miscellaneous	-	-	500	500
Insurance	114,000	114,000	108,289	(5,711)
Grant expenditures	-	-	108,193	108,193
Capital outlay	142,000	192,000	58,915	(133,085)
Transportation/Staff development	15,000	15,000	25,169	10,169
Total expenditures	5,186,628	5,175,629	5,295,474	119,845
Revenues Over (Under) Expenditures	(397,128)	(386,129)	27,327	413,456
Fund Balance - Beginning of year	1,321,406	1,321,406	1,321,406	-
Fund Balance - End of year	\$ 924,278	\$ 935,277	\$ 1,348,733	\$ 413,456

See notes to financial statements.

December 8, 2005

Board of Trustees
Flint Public Library
1026 E Kearsley Street
Flint, Michigan 48502

Board of Trustees:

We recently completed our audit of the basic financial statements of Flint Public Library for the year ended June 30, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated August 23, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we made a study and evaluation of the Library's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and we do not express such an opinion.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies used by the Library as described in Note 1 to the basic financial statements. We noted no transactions entered into by the Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed and management recorded some audit adjustments to correct and adjust certain general ledger accounts of the Library mainly related to the grants and capital assets. The basic financial statements reflect these adjustments. We proposed no other audit adjustments that were not posted to the accounting records that could, in our judgment, either individually or in the aggregate, have a significant effect on the Library's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situation. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Library's auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the course of performing our audit.

Comments and Recommendations

Accounting system

Currently, the Library uses a third-party computerized accounting software program that is accessed through a secure site on the internet. The system has various modules such as the general ledger, payroll, and accounts payable. In addition, the third-party consultant provides various accounting services such as interim financial reporting, general ledger and, bank reconciliations. We noted that the current accounting system in many cases is inflexible in that the Library's Business Office staff cannot generate certain reports (such as the general ledger) without the assistance of the third party consultant. All grant reports must be developed and generated by the consultant. We also believe the current set-up is not cost-beneficial. We have observed and management has expressed a need for improved interim financial reporting, including grant and budget to actual reporting. We believe that it might be beneficial both from a long-term cost perspective as well as effectiveness and efficiency to identify an accounting system that could be operated solely by the Library's Business Office. While there would be potentially a substantial initial investment in software, software implementation, and staff training, we believe the benefits of improved flexibility, efficiency and effectiveness outweigh the costs.

Grant and donor restricted contribution accounting

1. Grant accounting- We believe improvements can be made in the accounting of grants to provide better grant/restriction reporting. Currently, dedicated general ledger accounts (or cost centers) are established to account for grants. In addition, a separate financial grant report is developed for each grant to provide interim reporting, however, the reports as currently presented do not report accurate budget to actual and cumulative grant totals in a way that management can monitor the grant or restricted contribution activity. As mentioned above, should the Library decide to bring the accounting system in-house we recommend that the system purchased include grant reporting capabilities and that the staff be trained to use the system.

If the current system is maintained, we believe there should be changes made to the existing methodology used to account and report grants so that understandable reports are generated that management can use to monitor the grants. This change might include establishing a separate fund to account for grants if the system can accommodate it.

2. Restrictions on donor contributions- should be tracked in such a way that the general ledger will identify the amount of unspent restricted contributions that exist at any point in time. With regard to these contributions, a separate spreadsheet may be the best way to accomplish the tracking of the restrictions.

Purchase system

If a new accounting system is determined to be needed we believe that obtaining a system with a purchase order system that integrates with the Library's book inventory may be beneficial. An integrated system, if available, would allow the purchase of books to be automatically added to the book inventory. As a result, efficiencies may be achieved.

Bank account statement review

Currently, the process for the non-payroll check disbursements cycle is such that Director reviews the actual supporting invoices and approves items for payment prior to the printing of checks. The checks are then generated with printed signatures of the approved signatories. A check register is generated and reviewed by the other Business office personnel not involved with the initial invoice input. Then the checks are mailed. We believe internal controls can be strengthened by having the bank statements sent directly to the Director unopened and that she review checks that have cleared the bank for propriety.

Budget compliance

While the budget was amended during the year there were activities with actual expenditures in excess of budget appropriations. We recommend that the budget be reviewed closely and that amendments be made before year end to avoid any budget overages.

Chart of Accounts

The chart of accounts for the Library does not currently follow the format required by the State of Michigan Department of Treasury. Should a new general ledger system be obtained we recommend that the chart of accounts be developed to comply with the chart of accounts required by the Treasury Department.

We would like to thank Jo Ann Mondowney, Marguerite Schmidt and the other Library personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Sincerely,

PLANTE & MORAN, PLLC



Tadd Harburn, CPA